*CELEBRATING OUR SUCCESS*

# TAX RELIEF FOR HAWAI`I RESIDENTS

**August 18, 2005**

- The Lingle-Aiona Administration closed the State's FY 2005 books with an ending General Fund balance of $486 million as compared to a $130 million gap for FY03; plus a $175 million gap for FY04.
    - Total FY05 revenues were $4.5 billion.
    - Total expenditures were $4.2 billion.
    - The excess revenues ($302 million) combined with prior year carry-over balances ($184 million) add up to an ending balance of $486 million.
- Article VII, Section 6 of State Constitution addresses disposition of excess revenues states:
    - "Whereas the state general fund balance at the close of each of two successive fiscal years exceeds five percent of general fund revenues for each of the two fiscal years, the legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law."
    - This provision was added by the 1978 Constitutional Convention.
- The state Department of Budget and Finance currently projects a FY 2006 ending balance of $473 million; 10% of anticipated revenues for that year.
    - This would meet the constitutional criteria of two consecutive years with general fund balances exceeding 5%.
    - The Legislature would be constitutionally mandated to refund taxpayers in 2007.
    - The Lingle-Aiona Administration recommends it be implemented by the Legislature in 2006. We have the money now.
- The criteria have been met 17 times since the constitutional provision was enacted in 1978. Fifteen of these were in consecutive years 1981-1995. The two remaining times were in 2001 and 2002.
- An eligible taxpayer is defined as anyone who filed a tax return, either as a single person, head of household, or both a husband and wife if filing jointly. The person must be a resident of Hawai`i. Residency previously has been defined as someone who resided in the state at least nine months during the tax year, except for deployed military personnel.
- The Council on Revenues is scheduled to meet again on Sept. 2, 2005. The outlook is bright for a positive projection that should result in generous tax relief to State's taxpayers.
- The Lingle-Aiona Administration has proposed significant tax relief measures for Hawai`i residents in each of the past three legislative sessions; however inaction by the Legislature has not resulted in any tax relief.
- The State now has the resources to enact these measures immediately.

(more)

**Lingle-Aiona Administration Tax Relief Proposals**

Adjust the Standard Deduction

- Change the standard deduction so that it is one-half of the deduction allowed under Federal law. Single taxpayers would be able to deduct $2,500 rather than current amount of $1,500.  Couples filing a joint return would be able to deduct $5,000 rather than $1,900.

- The Lingle-Aiona Administration proposed adjusting the standard deduction for Hawai`i taxpayers during the 2003, 2004 and 2005 legislative sessions.

Tax Credits for Food, Medical Services and Non-Prescription Drugs

- Provide tax credits for families to offset the tax on food, medical services, and non-prescription drugs.
- The Administration's previous proposal would have affected approximately 515,000 people, nearly 40% of Hawai`i's population, live in households earning $40,000 or less.
- The proposed tax credit would be $55 per person, or $220 for a family of four.
- The Lingle-Aiona Administration proposed providing food and medical tax credits to Hawai`i taxpayers during the 2005 legislative session.
- The Administration is looking at revising upward the $40,000 threshold in the 2006 session.

Long-Term Care Tax Credit

- Provide refundable tax credits to employers and families who purchase long-term care insurance for their employees and loved ones.
- The credit would be on a graduated scale based on a family's adjusted gross income, up to $150,000.
- The maximum credit would be $1,000 or 50% of the insurance premium cost, whichever is less.
- Employers would receive a tax credit of $50 per employee.
- Twenty-two states provide some form of tax incentive for long-term care insurance.
- The Lingle-Aiona Administration proposed long-term care insurance tax credits during the 2004 and 2005 legislative sessions.

Lower the Unemployment Insurance Tax

- In addition to tax credits for residents, Governor Lingle will again seek tax relief for businesses by asking the Legislature to lower the maximum taxable wage base for unemployment insurance from $32,700 to the federal minimum of $7,000 for 2006, 2007 and 2008.
- This will provide tax savings for employers over the next three years of $196 million while maintaining a healthy balance in the unemployment trust fund.
- **These monies do not impact the State budget**.
- The Unemployment Insurance Fund balance is projected to be $452 million at the end of 2005.
- Due to Hawai`i's record low unemployment rate (2.7% in July), the fund collects $125 million per year, but spends only $105 million.
- The Lingle-Aiona Administration proposed lowering the unemployment insurance tax during the 2005 legislative session.

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